3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal position and outlook

The 2017-18 Half-Yearly Review demonstrates the State's strong fiscal position and outlook.

The budget result for 2017-18 is expected to be in surplus by $3.3 billion, which is $634 million higher than forecast at the time of the 2017-18 Budget. The improved surplus is driven by lower forecast expenses, which have been partially offset by lower revenues.

Average surpluses of $2.1 billion are also forecast over the four years to 2020-21.

The 2017-18 Half-Yearly Review takes account of policy decisions made by the NSW Government, revisions to Commonwealth Government grants and other information affecting the State's financial statements since the 2017-18 Budget up to 6 December 2017.

The budget estimates do not include the impact of any announced but not yet completed asset sale or lease transactions, including the potential sale of Snowy Hydro to the Commonwealth Government announced in the 2017-18 Commonwealth Budget and the divestment of 51 per cent of WestConnex. Consistent with past practice, such impacts are only recognised when a transaction is finalised.

Table 3.1 sets out the key budget aggregates for the general government sector.

Table 3.1: General government budget aggregates

	2016-17[(a)]	2017-18	2017-18	2018-19	2019-20	2020-21
	Actual	Budget	Revised	Forward Estimates		
Revenue ($m)	78,139	79,885	79,842	80,755	83,142	84,594
Revenue growth (%)	5.4	2.4	2.2	1.1	3.0	1.7
Expenses ($m)	72,551	77,186	76,510	78,661	81,699	83,036
Expense growth (%)	4.2	5.0	5.5	2.8	3.9	1.6
Budget Result ($m)	5,724	2,698	3,332	2,093	1,442	1,558
Per cent of GSP	1.0	0.5	0.6	0.3	0.2	0.2
Capital Expenditure ($m)	10,546	14,515	14,325	18,651	12,902	10,732
Per cent of GSP	1.8	2.4	2.4	3.0	2.0	1.6
Net Lending/(Borrowing) Result ($m)	3,040	(6,447)	(5,597)	(10,853)	(5,985)	(3,605)
Per cent of GSP	0.5	(1.1)	(0.9)	(1.7)	(0.9)	(0.5)
Net Debt ($m)	(9,344)	(521)	(2,935)	9,444	17,838	23,712
Per cent of GSP	(1.6)	(0.1)	(0.5)	1.5	2.7	3.4
Net Worth ($m)	226,471	237,859	247,591	260,002	271,088	281,206
Per cent of GSP	39.3	39.8	41.0	41.3	41.1	40.6

(a) Transactions from discontinued operations contributed a further $136.0 million to the budget result in 2016-17.

Since the 2017-18 Budget, revenue forecasts have been revised upwards over the four years to 2020-21. Stronger employment growth is driving a $1.2 billion increase in payroll tax forecasts and higher than expected land values are contributing to a $973 million increase in land tax revenue forecasts. GST revenue is expected to be slightly higher over the budget and forward estimates. This has been offset by transfer duty revenue, which is $1.1 billion lower than at the time of the Budget, primarily reflecting an increase in property purchases eligible for first home buyer concessions, aligned to the Government's housing affordability policy.

The Government is focused on further addressing cost of living pressures, improving housing affordability and repairing and upgrading regional infrastructure including roads. In total, expenses are forecast to increase by $1.4 billion over four years relative to the 2017-18 Budget.

Fiscal strategy

The NSW fiscal strategy is guided by the *Fiscal Responsibility Act 2012* (FRA), the key objective of which is to maintain the State's triple-A credit rating. The FRA also requires adherence to three principles of sound financial management:

- responsible and sustainable spending, taxation and investment
- effective financial and asset management
- achieving intergenerational equity.

The Government continues to deliver on its fiscal strategy and adhere to the principles of sound financial management. To help achieve responsible and sustainable spending, a key area of focus is maintaining general government annual expense growth in line with long-term revenue growth.

Box 3.1: New South Wales retains its triple-A credit rating

Since the 2017-18 Budget, New South Wales has had its triple-A credit rating, the highest possible credit rating, reaffirmed by both major international credit ratings agencies. Moody's reaffirmed New South Wales at triple-A with a stable outlook in October 2017. Standard & Poor's reaffirmed the triple-A rating with a negative outlook in September 2017.

New South Wales is amongst a small group of global sub-sovereign governments who hold a triple-A credit rating and one of only two Australian states (the other is Victoria) that are currently rated as triple-A by both major ratings agencies.

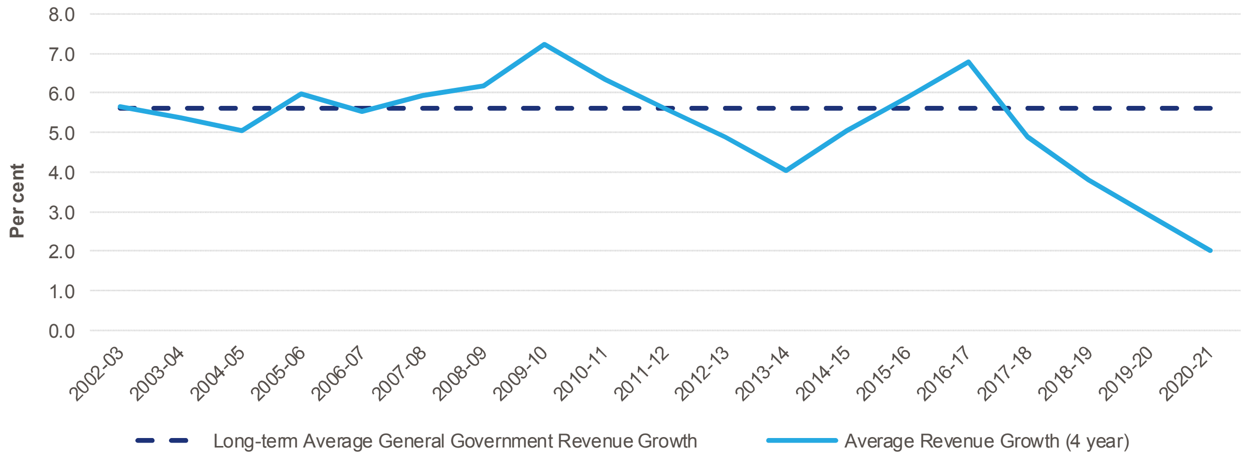
A triple-A rating signals to domestic and foreign investors that the State is one of the safest places to invest and allows the State to borrow at lower interest rates than without a triple-A rating.

The credit rating agencies place a ceiling on the State's credit ratings at the Commonwealth Government's credit rating, mainly due to the fact that a significant proportion of the State's revenue comes from Commonwealth Government grants. When Standard & Poor's placed the Commonwealth Government on negative outlook in July 2016, this flowed through to the outlook for New South Wales, Victoria and the Australian Capital Territory.

In the event of a Commonwealth Government rating downgrade, New South Wales is committed to retaining a fiscal position that is consistent with a standalone triple-A credit rating, reflecting its focus on the principles of sound long-term financial management and the continued delivery of sustainable services and infrastructure. Standard & Poor's state that the current standalone credit profile of New South Wales is considered triple-A.

Chart 3.1 shows that revenue growth is forecast to decline over the forward estimates, as the State's share of GST revenue declines and transfer duty growth moderates relative to recent years.

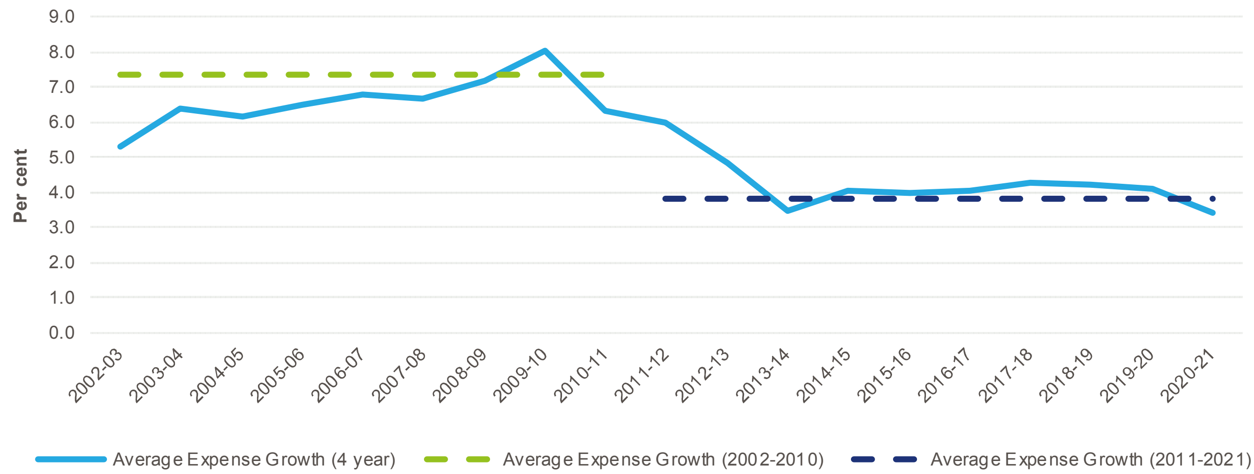
Chart 3.1: Four year average revenue growth



As seen in Table 3.1, annual expenditure growth is estimated to be 5.5 per cent for 2017-18. This is higher than forecast at the 2017-18 Budget due to the better than expected 2016-17 outcome, which lowered the base from which 2017-18 expense growth is calculated.

Chart 3.2 shows a decline in the rolling four year average expense growth over the forward estimates. The NSW Government is maintaining a disciplined approach to controlling expense growth and managing the State's budget in line with lower revenue growth. Since 2011-12, the Government has been able to reduce expense growth while delivering significant new investment in services and infrastructure.

Chart 3.2: Four year average expense growth



Fiscal strategy – asset recycling and the balance sheet

The State's successful asset recycling strategy is helping fund the Government's record infrastructure investment of $80.1 billion across the four years to 2020-21. This has increased by $7.4 billion since the 2017-18 Budget due to both new infrastructure investment (e.g. Parramatta Light Rail Stage 1) and the recognition of future Restart NSW reservation spending over the four years to 2020-21 (see Section 3.5).

Recent transactions, including successful completion of the partial long-term lease of electricity network businesses, have driven a significant reduction in net debt, with a record low net debt of negative $9.3 billion for 30 June 2017.

Net debt is estimated to be negative $2.9 billion at 30 June 2018, a reduction of $2.4 billion compared to the 2017-18 Budget, mainly driven by the better than expected 2016-17 outcome outlined in the *2016-17 NSW Report on State Finances* and improvements in the forecast 2017-18 Budget result.

Net debt is expected to rise to $23.7 billion by 2020-21 as cash surpluses and the proceeds of transactions are reinvested in infrastructure. The 2017-18 Half-Yearly Review does not include the impact of the recently announced WestConnex transaction or ongoing discussions with the Commonwealth Government on Snowy Hydro, which may further reduce net debt and help fund the State's record infrastructure program.

The State's rising net worth is forecast to reach a record $247.6 billion at June 2018 and continue to grow across the forward estimates, driven by asset recycling, financial management reforms and active financial liability management, rising to a projected $281.2 billion at June 2021.

3.2 Revenue outlook

General government revenue in 2017-18 is forecast to be $79.8 billion, $42.9 million lower than the 2017-18 Budget forecast (see Table 3.2). The revised forecast incorporates a downward revision of $149.0 million in taxation revenue, with strong take-up of first homebuyer concessions resulting in weaker than expected residential stamp duty revenue, partly offset by stronger payroll tax and land tax revenue. Increases in GST, royalties, dividends and other revenues have all contributed to a $106.1 million increase in non-taxation revenue since the Budget.

Over the forward estimates, forecast revenue is $2.0 billion higher than at the Budget. Of this, $1.2 billion is from higher taxation revenue, as the strength of NSW employment and the property market flow into higher payroll tax and land tax revenue, respectively.

Average annual revenue growth is expected to be 2 per cent over the four years to 2020-21, slightly higher than the 1.8 per cent expected at the Budget.

Table 3.2 provides a summary of revenue for the general government sector.

Table 3.2: General government sector revenue

	2016-17 Actual $m	2017-18 Budget $m	2017-18 Revised $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	% Average growth p.a. 2016-17 to 2020-21
Revenue from transactions							
Taxation	30,789	31,560	31,411	32,940	34,680	36,090	4.1
Grant Revenue (including GST)	31,350	31,860	31,587	30,627	30,664	31,318	(0.0)
Sales of goods and services	8,159	8,976	9,012	9,593	9,478	9,015	2.5
Interest income	769	413	366	292	283	269	(23.1)
Dividends and income tax equivalents from other sectors	1,102	1,620	1,703	1,378	1,595	1,468	7.4
Other dividends and distributions	1,267	1,016	1,142	1,263	1,300	1,411	2.7
Royalties	1,580	1,665	1,729	1,725	1,643	1,616	0.6
Fines, regulatory fees and other revenues	3,123	2,774	2,891	2,935	3,500	3,407	2.2
Total revenue	**78,139**	**79,885**	**79,842**	**80,755**	**83,142**	**84,594**	**2.0**

Revenue policy decisions taken since the 2017-18 Budget

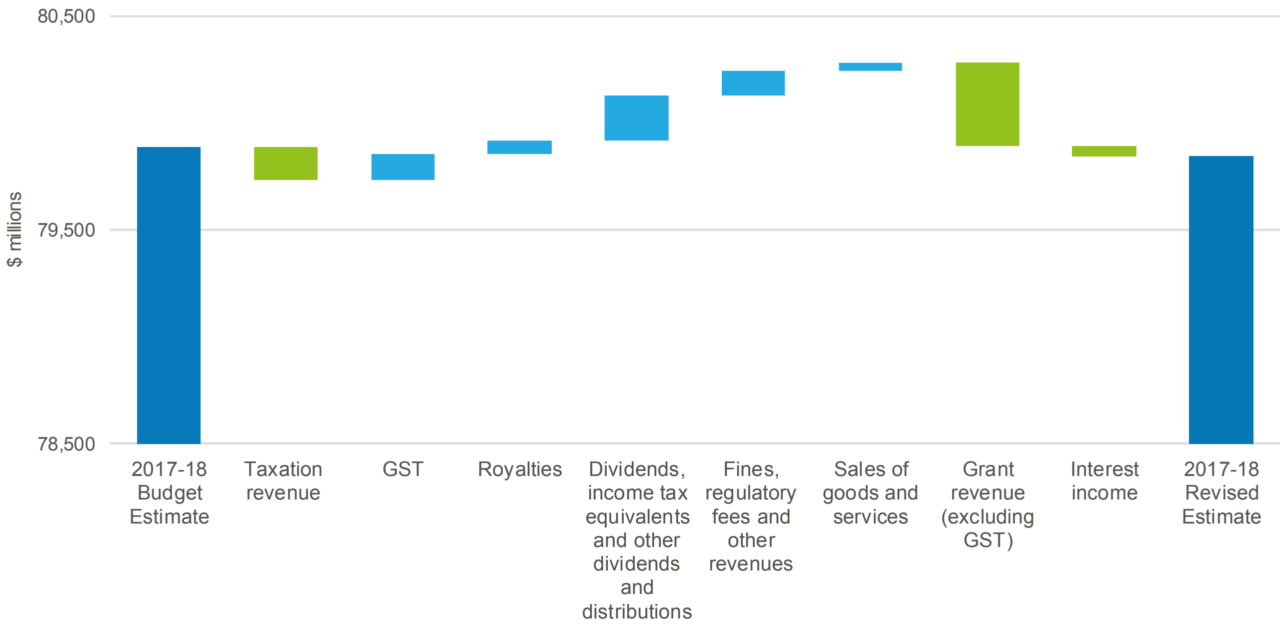
The Government continues to take steps to help ease cost of living pressures. Policy decisions related to these efforts include free registration for vehicles incurring more than $1,300 of tolls per year. This measure is expected to lower revenue by $162.0 million from 2018-19 to 2021-22 (see Box 3.2).

Table 3.3 provides a reconciliation of revenue changes since the 2017-18 Budget.

Table 3.3: Revenue reconciliation – 2017-18 Budget to Half-Yearly Review

	2017-18 Revised $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m
Revenue - 2017-18 Budget	**79,885**	**80,224**	**82,471**	**83,770**
Policy changes since Budget				
NSW Tolling Reward Plan	...	(33)	(38)	(43)
Other policy measures	41	(30)	(17)	(13)
Total policy changes	41	(63)	(55)	(56)
Parameter and other budget variations				
Transfer duty	(461)	(237)	(197)	(223)
Payroll tax	189	286	331	374
Land tax	106	225	312	331
Other taxes	17	21	(17)	(8)
Royalties	64	151	123	86
GST	119	61	95	113
Other	(119)	87	79	207
Total parameter and other HYR variations	(84)	593	726	880
Total revenue variations since 2017-18 Budget	(43)	531	671	824
Revenue - 2017-18 Half-Yearly Review	**79,842**	**80,755**	**83,142**	**84,594**

Chart 3.3: 2017-18 changes in revenue – 2017-18 Budget to Half-Yearly Review



Box 3.2: Lowering the cost of living – toll relief

Starting from 1 July 2018, toll road users will be eligible for free car registration as part of the NSW Government's commitment to tackle cost of living pressures.

Eligible NSW motorists who spend $25 a week or more on tolls, on average, over a 12 month period will receive free registration. NSW tolls paid from 1 July 2017 will be taken into account in determining eligibility.

Eligibility will be restricted to standard privately registered cars, utility vehicles, four-wheel drives and motorcycles renewing registration from 1 July 2018. Private motor vehicles weighing more than 2,795kg, such as trucks, are not included in the scheme.

The scheme will apply to existing toll roads and any new toll roads in the future. Customers who use the M5 Cashback Scheme can choose to continue to use that scheme or use the Toll Relief Program.

This measure forms part of NSW Government initiatives to assist in reducing the cost of living, with other reductions also available as a result of reforms to Compulsory Third Party Green Slips and the introduction of the FuelCheck app.

Taxation revenue

Taxation revenue in 2017-18 is estimated to be $31.4 billion, $149.0 million lower than the 2017-18 Budget estimate. The change is partly the product of lower forecast transfer duty as growing numbers of first homebuyers benefit from new concessions. Higher payroll tax and land tax have partly offset the reduction. Over the forward estimates taxation revenue has been revised up by $1.2 billion.

Transfer duty revenue in 2017-18 is forecast to be $461.0 million lower than at the Budget. The Housing Affordability package and other policy changes announced in the 2017-18 Budget have changed the mix of transactions between first homebuyers, domestic investors and foreign investors, resulting in lower revenue. The success of the Government's assistance for first homebuyers is an important part of the revised transfer duty forecasts (see Box 3.3).

The average price of residential properties sold in 2017-18 is forecast to be around 1.8 per cent above the average price for 2016-17, a significant slowing compared with the 6.2 per cent growth in the year to the September 2017 quarter.

Moderating growth in residential transfer duty was incorporated at the time of the Budget. Since then, transfer duty revenue is forecast to be $657.0 million lower over the forward estimates. This is largely driven by an increase in the number of property purchases eligible for first homebuyer concessions, with only a slight downward revision to the outlook from lower activity of non-first homebuyers. However, the revenue forecasts are subject to downside risk if transaction volumes fall.

Land tax revenue in 2017-18 is expected to be $105.9 million higher than at the Budget as a result of new land valuations determined by the Valuer General as at 1 July 2017. Land tax revenue is expected to be $867.2 million higher in the three years to 2020-21 compared to budget estimates, due to higher than expected land values and their ongoing effect through three year averaging.

Strong NSW employment growth in 2017-18 has resulted in *payroll tax* revenue being revised up by $189.5 million since the 2017-18 Budget. Wage growth remains broadly consistent with the Budget forecasts. Employment growth, particularly in full-time employment, has been stronger than expected, supported by infrastructure and housing construction. Payroll tax collections in the first quarter of 2017-18 have reflected this strength.

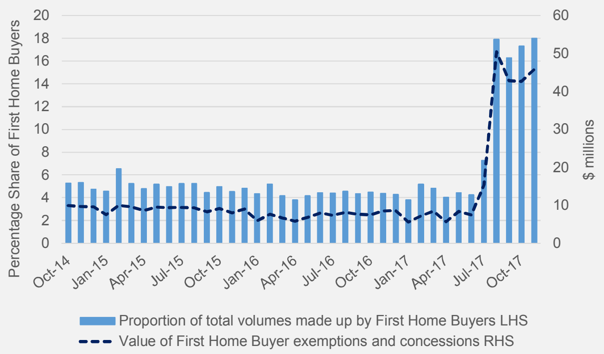
Over the three years to 2020-21, payroll tax revenue is expected to be $991.2 million higher than at the Budget, as stronger employment growth in 2017-18 flows through to the forward estimates.

Box 3.3: Boosting housing affordability

On 1 June 2017, the NSW Government announced its comprehensive housing affordability package aimed at supporting first homebuyers by providing stamp duty relief, boosting housing supply and delivering infrastructure to support growing communities across the State. NSW dwelling completions have been at record levels in recent years - representing the best way the Government can encourage downward pressure on house price growth. Addressing housing affordability continues to be one of the Government's key priorities.

To give first homebuyers a better opportunity to own a home, the housing package abolished stamp duty for first homebuyers of new and existing homes up to $650,000 in value, with stamp duty reductions for properties between $650,000 and $800,000. The package also offered $10,000 grants for first homebuyer purchases of new homes up to $600,000 in value.

Chart 3.4: First homebuyer duty concessions have risen sharply



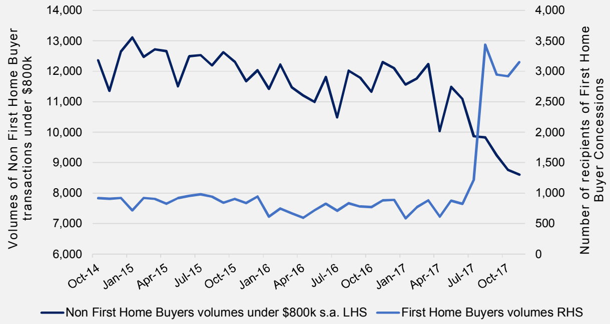
Source: Revenue NSW and Treasury

Many have taken advantage of the stamp duty relief offered. In the five months to November 2017, 13,672 first homebuyers received stamp duty concessions and exemptions worth $197.0 million (see Chart 3.4).

This compares with 3,970 first homebuyers and $39.2 million over the same period in 2016-17.

While the volume of transactions less than $800,000 has not significantly changed, the share of first homebuyers in this price range has increased dramatically (see Chart 3.5).

Chart 3.5: First homebuyers have displaced other buyers under $800,000



Source: Revenue NSW and Treasury

Improving housing outcomes remains a key priority for the NSW Government, with a Cross-Government Build-to-Rent Working Group established to investigate the opportunities presented in a build-to-rent housing sector.

Build-to-rent developments in overseas markets generally refer to purpose built residential rental properties held by a single owner, with dwellings rented out to the market using long-term rental agreements. Build-to-rent property owners in the United Kingdom and United States commonly include institutional investors who have a long-term investment horizon. With the number of renter households increasing in New South Wales, this sector represents a potential opportunity to improve housing diversity and choice.

Working closely with industry, the Build-to-Rent Working Group is investigating whether there are any regulatory and non-regulatory barriers that may prevent the sector from flourishing. The Working Group is scheduled to present recommendations to the Government in early 2018.

Non-taxation revenue

Total non-taxation revenue is expected to be $48.4 billion in 2017-18, $106.1 million higher than at the 2017-18 Budget. Non-taxation revenue is forecast to be $828.0 million higher over the forward estimates.

Of these changes, *GST* revenue is now forecast to be $119.4 million higher in 2017-18 than expected at the Budget. The revision is due to the Commonwealth's 2016-17 determination of the final GST entitlement for New South Wales, incorporating a higher than expected GST pool, and a lower than expected NSW population share.

Over the three years to 2020-21, the forecast NSW share of the national GST pool has been revised up, delivering an additional $268.4 million compared to the 2017-18 Budget. One of the major factors driving the revised GST forecast is NSW population growth, increasing the expenditure needed to provide infrastructure services. Nevertheless, the NSW share of the GST pool remains significantly below its population share, and the system for dividing the pool remains unfair, overly complex and inefficient (see Box 3.4).

National Partnership payments are projected to be $288.0 million higher over the forward estimates period due primarily to revised revenue from the Commonwealth for disability services.

Commonwealth grants, including GST revenue and National Agreement payments will represent around 40 per cent of total revenue and 65 per cent of non-tax revenue in 2017-18. Other states and territories are similarly dependent on Commonwealth grants, so all Australian governments have a stake in improving the effectiveness of federal relations. This is one of the goals of the Board of State and Territory Treasurers, recently initiated by New South Wales (see Box 3.5).

Revenue received by schools from the community, including rent for use of school property outside of school hours, has recently been reclassified for reporting purposes. As a result *other grants and subsidies* will be $386.2 million lower in 2017-18 and around $1.5 billion lower over the three years to 2020-21, while *sales of goods and services* will increase by similar amounts over the forward estimates. Revised reporting has not changed total revenue or revenue available to schools.

Sales of goods and services have been revised up by $36.0 million in 2017-18 due largely to a higher take-up of new Hepatitis C vaccinations, for which New South Wales receives Commonwealth funding under the Highly Specialised Drugs arrangements. This is partially offset by reprofiling of fees for services in other sectors to better align with planned activity.

Interest income is expected to be $47.2 million lower in 2017-18 and $153.7 million lower over the forward estimates period compared to the Budget. This is due primarily to comparatively lower cash and deposit balances, offset by higher returns on NSW Treasury Corporation (TCorp) managed funds reported as other dividends and distributions.

Dividends and income tax equivalents in 2017-18 have been revised up by $82.7 million and revised up by $54.4 million over the forward estimates period since the 2017-18 Budget (see Section 3.9 for more detailed explanations of the factors driving these changes).

Other dividends and distributions are received from entities other than State Owned Corporations. They have been revised up by $126.1 million in 2017-18 since the Budget. This reflects higher than expected financial returns in funds managed by TCorp year-to-date.

Box 3.4: GST and the Productivity Commission Inquiry into Horizontal Fiscal Equalisation

New South Wales welcomes the draft report findings of the Productivity Commission (PC) that the basis for distributing GST between the states is in need of repair and the pursuit of complete Horizontal Fiscal Equalisation (HFE) comes at a cost to economic efficiency and productivity.

The PC concludes that a better balance must be struck between equity, efficiency, transparency, simplicity and accountability. New South Wales' submissions to the PC Inquiry continue to point out that states should not be penalised for undertaking sound, fiscally responsible reform to drive economic growth, increased efficiency and productivity.

New South Wales continues to support an equal per capita (EPC) distribution of GST as well as broader reform to federal financial relations. An EPC model is efficient, equitable, simple, transparent and predictable and eliminates the perverse incentives and unintended consequences that characterise the current arrangements.

Successful and enduring reform to the distribution of GST between the states also requires rigorous, high quality governance arrangements that ensure all decision-making is subject to a high accountability standard. As part of this, the policy and implementation functions currently performed by the Commonwealth Grants Commission (CGC) should be separated.

The GST is a states' tax and provides a significant share of total state revenue. States should therefore be given a meaningful role in defining the objective of HFE.

New South Wales believes the PC must be more ambitious in its final report. Modest reforms to HFE risk inaction and failure to realise meaningful change. Far-reaching and specific recommendations from the PC are needed to help break the impasse that characterises the dialogue between the Commonwealth and States on HFE, and federal financial relations more broadly.

Mineral royalties revenue has been revised up by $64.3 million in 2017-18 and $359.6 million over the forward estimates, as a result of higher coal price forecasts, partially offset in 2017-18 by lower export volumes and a higher exchange rate. Current market expectations for prices are higher than at the Budget. The expectations are influenced by stockpiling by Chinese power plants due to import restrictions, new thermal coal plants in South Korea, and concerns that industrial action may restrict South Africa's coal production.

Fines, fees and other charges in 2017-18 have been revised upwards by $116.6 million and by $155.8 million in the three years to 2020-21 compared to the Budget.

Box 3.5: Board of Treasurers – a new approach to Commonwealth-State relations

On 27 October 2017, state and territory Treasurers supported a proposal of the NSW Government to establish a Board of Treasurers (the Board). The purpose of the Board is to work together on issues of common interest and advance national reform priorities from a state and territory perspective, including but not limited to an agenda setting role in relation to federal affairs.

The creation of the Board represents a move to a more collaborative form of federalism that will improve understanding and cooperation among state and territory Treasurers.

At the first meeting of the Board held on 21 November 2017, state and territory Treasurers agreed to pursue an ambitious reform agenda, particularly in enhancing productivity to encourage economic growth. The Treasurers also discussed health and education funding, which are key to driving productivity and each state and territory's ability to meet the needs of their communities while achieving budget sustainability.

Treasurers agreed to explore opportunities to harmonise the taxation of wagering activities across states and territories. The Board also discussed the need for more constructive dialogue with the Commonwealth to create sustainable reforms that address vertical fiscal imbalance.

The Board represents an exciting opportunity to build collaboration amongst states and territories and present a unified voice in Commonwealth-State relations.

3.3 Expenses outlook

General government sector expenses in 2017-18 are estimated to be $76.5 billion, $676.8 million lower than at the time of the 2017-18 Budget. This movement is primarily due to the reprofiling of expenses across the forward estimates to better align with planned activity.

However, expense growth in 2017-18 is expected to increase to 5.5 per cent compared to 5 per cent at the time of the 2017-18 Budget. The higher rate of expense growth reflects new policy measures and the lower than anticipated 2016-17 expenditure outcome, offset by expense reprofiling.

Over the forward estimates, expenditure is estimated to be $2.1 billion higher than at the time of the 2017-18 Budget. This principally reflects the impact of new policy decisions, including recognising future Restart NSW reservations.

Four year average expense growth over the period 2017-18 to 2020-21 is 3.4 per cent, compared to 2.8 per cent at the time of the 2017-18 Budget, reflecting new policy measures and a lower than anticipated 2016-17 expenditure outcome.

Table 3.4 provides a reconciliation of changes to the budget expense aggregates between the 2017-18 Budget and the Half-Yearly Review.

Table 3.4: Expense reconciliation – 2017-18 Budget to Half-Yearly Review

	2017-18	2018-19	2019-20	2020-21
	Revised		Forward Estimates	
	$m	$m	$m	$m
Expenses - 2017-18 Budget	**77,186**	**78,098**	**80,939**	**82,270**
Policy measures	92	458	1,039	821
Reforms, savings and offsets	...	2	(1)	(26)
Total parameter and other budget variations	(768)	104	(277)	(29)
Expenses - 2017-18 Half-Yearly Review	**76,510**	**78,661**	**81,699**	**83,036**

New policy measures increase expenses by $2.4 billion over the four years to 2020-21. Key expense measures since the 2017-18 Budget include:

- $2.0 billion over four years reflecting the inclusion of Restart NSW reservations for projects primarily delivered by local government and government businesses.
- $169.8 million for additional energy rebates over three years to 2019-20, as part of the Government's Energy Affordability Package, to assist eligible NSW households with the cost of their energy bills. This includes current year costs ($59.3 million) that will be met from existing resources. Box 3.6 contains further detail on how the Government is supporting households with energy related living costs.
- $114.2 million over four years to assist local councils with the repair and upgrade of regional NSW roads. This includes 67 projects as part of Round Three of the Fixing Country Roads program. These projects help connect regional communities and boost freight productivity, reduce costs for businesses and provide faster access from local and regional roads to state highways and key freight hubs.
- $73.8 million over three years to 2019-20 from the Housing Acceleration Fund, for delivery of road projects by Blacktown, Dubbo and Liverpool councils. The Housing Acceleration Fund helps support the delivery of critical infrastructure to stimulate housing development across New South Wales, speeding up the delivery of new homes and supporting growing communities.
- $34.8 million over three years to 2020-21 towards New South Wales hosting matches during the ICC Twenty20 tournament in 2020. This will showcase both the men's and women's tournaments. This includes expenses of $4.8 million in 2017-18 that will be met from existing resources.
- $21.6 million over four years for new water and wastewater treatment plants in Liverpool Plains, Hay, Scone, Junee and Bowraville, improving water security and public health. These projects are part of the Safe and Secure Water Program, ensuring water and sewerage infrastructure in regional New South Wales meets contemporary standards for water security, public health, environmental and safety outcomes into the future.
- A further commitment from the Social and Affordable Housing Fund, with Phase 2 seeking to deliver 1,200 additional houses. These homes will be provided through innovative partnerships between community housing providers, financiers, developers and other organisations. The new homes will deliver access to accommodation, property and tenancy management and tailored support coordination services.

Box 3.6: Energy Bill Relief Package for households and small businesses

The NSW Government is providing an additional $169.8 million to assist low income and vulnerable customers in meeting the cost of their energy bills. All NSW energy rebates have been increased by approximately 20 per cent and are effective from 1 July 2017. Rebates include the:

- Low Income Household Rebate
- Family Energy Rebate
- NSW Gas Rebate
- Medical Energy Rebate
- Life Support Rebate.

This initiative is part of the Government's *Energy Affordability Package*, which also includes energy efficiency measures to assist households and small businesses, and the removal of unnecessary energy retailer fees and charges.

With energy costs proving an ongoing challenge for households and businesses around New South Wales, the Government's energy relief package provides vital assistance to those who need it most.

New policy measures being funded from existing resources with no impact on aggregate expenses include:

- $48.3 million as part of the $79.3 million Foundations for the Jobs of the Future package, to assist young people in developing the skills they need to secure current and future jobs across New South Wales. This initiative:
  - supports NSW Public Schools in providing young people with early and ongoing Science, Technology, Engineering and Mathematics (STEM) exposure to develop an interest and aptitude in STEM career choices
  - aims to further develop work-integrated tertiary pathways and higher apprenticeships and traineeships, providing young people with career support and Regional Industry-Education partnerships between industry and schools.

Parameter adjustments and other budget variations are expected to decrease expenses in 2017-18 by $768 million relative to the 2017-18 Budget. Key variations that impact expenses include:

- lower forecast agency expenses in 2017-18, which are partially reprofiled across the forward estimates to better align expenditure profiles with planned activity
- reduced interest expenses of $65.8 million due to lower interest rates and lower debt restructuring costs.

These are offset by additional expenses of $120.0 million in 2017-18 to provide additional drug treatments for Hepatitis C, funded by the Commonwealth Government. From 2018-19 to 2020-21, parameter adjustments and other budget variations are forecast to decrease expenses by $203 million relative to the 2017-18 Budget. Significant drivers impacting expenses over this period include the reprofiling of expenses from 2017-18 across the forward estimates. This is offset by reduced expenses due to lower price growth than forecast in 2019- 20 and 2020-21, lower interest costs due to lower borrowings, and revised agency forecasts.

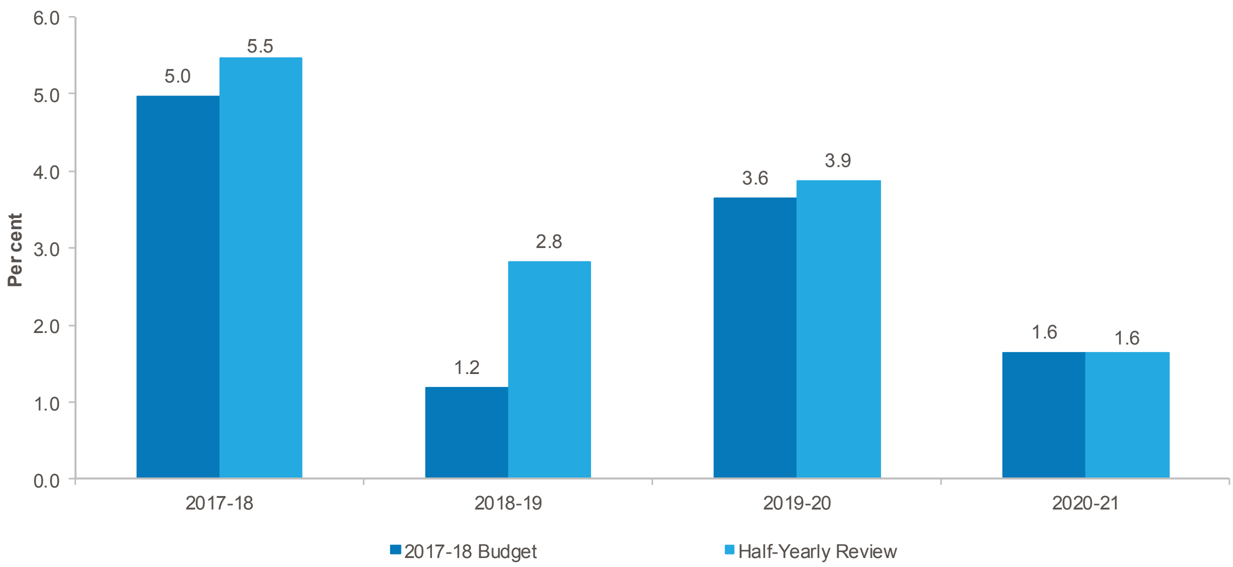
Table 3.5 provides a summary of general government expenses by major category.

Table 3.5: General government sector expenses

	2016-17 Actual $m	2017-18 Budget $m	2017-18 Revised $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	% Average growth p.a. 2016-17 to 2020-21
Total employee-related expenses	34,911	35,957	35,663	37,990	39,501	40,339	3.7%
Employee expenses	*30,585*	*31,483*	*31,165*	*33,728*	*35,226*	*36,072*	*4.2%*
Superannuation	*4,326*	*4,474*	*4,498*	*4,263*	*4,275*	*4,266*	*-0.3%*
Other operating	18,312	19,627	19,469	19,103	19,015	18,882	0.8%
Depreciation and amortisation	4,614	4,937	4,946	5,185	5,569	5,784	5.8%
Recurrent grants and subsidies	11,729	13,359	13,486	13,171	14,075	14,734	5.9%
Capital grants	837	1,212	917	1,070	1,069	742	-3.0%
Interest	2,149	2,094	2,028	2,141	2,471	2,556	4.4%
Total expenses	**72,551**	**77,186**	**76,510**	**78,661**	**81,699**	**83,036**	**3.4%**
Annual change	*4.2%*	*5.0%*	*5.5%*	*2.8%*	*3.9%*	*1.6%*	

Chart 3.6 shows the change in annual expense growth rates from the 2017-18 Budget to the Half-Yearly Review.

Chart 3.6: Comparison of expected expense annual growth rate



Emerging expense pressures across the forward estimates present a significant challenge for the budget in the coming years. Key pressures include Gonski 2.0, rising service demands and the flow-on effects of the record State infrastructure investment program, including higher maintenance and depreciation costs.

These challenges will require the Government's continued commitment to fiscal discipline to effectively manage expense growth. This has been demonstrated through ongoing efficiency savings measures, which has included the new expenditure that has been met from within existing resources where possible. The Government's wages policy established in March 2011 has also continued to reduce costs.

3.4 Expense measures statement

The Government continues to invest in services and projects for communities across regions and cities of New South Wales.

Table 3.6 shows the impact of new policy measures by cluster. The table displays the expense impact of these measures, and does not include associated revenue or capital expenditure.

Table 3.6: New policy measures since the 2017-18 Budget – recurrent expenses [(a)(b)]

	2017-18	2018-19	2019-20	2020-21	Four year total	Comment on major decisions included in totals
	Revised	Forward Estimates				
	$m	$m	$m	$m	$m	
Family and Community Services	47.9	5.3	11.9	24.1	**89.2**	• Delivering the second phase of the Social and Affordable Housing Fund. • Supporting NSW Disability Transition Fund initiatives for the Hunter residences redevelopment program and the cost of transferring disability services to non-government providers.
Finance, Services and Innovation	1.5	8.6	0.5	0.5	**11.1**	• Supporting the delivery of the Commonwealth Government's Mobile Black Spot program. • Delivering the Regional Digital Connectivity project to upgrade around 52 economically significant towns from satellite to faster fixed wireless internet to enable regional growth and to meet future connectivity demand.
Health	3.1	2.7	-	-	**5.8**	• Supporting the NSW Disability Transition Fund initiative for an integrated service response for people with intensive support needs.
Industry	(7.4)	15.4	8.5	8.3	**24.8**	• Successfully bidding to host the ICC Twenty20 Cricket World Cup. • Reclassification of Stronger Country Communities Fund expenses in 2017-18 to capital projects.
Planning and Environment [(c)]	-	55.5	55.5	0.2	**111.1**	• Increasing energy rebates for low-income customers as part of the Government's recently announced Energy Relief Package.
Premier and Cabinet	9.7	3.4	2.7	2.3	**18.1**	• Providing support to deliver regional infrastructure projects through the Regional Growth: Economic Activation Fund. • Supporting the completion of studies and analysis required for the South Creek Corridor Strategy to support population growth in the area through the development of liveable and sustainable communities.
Transport and Infrastructure	1.9	-	-	-	**1.9**	• Delivering Fixing Country Rail projects. • Supporting the delivery of final business cases for Cycling Infrastructure Fund projects.
Treasury	34.8	367.0	959.7	785.5	**2,147.1**	• Restart NSW grants across New South Wales and Restart NSW reservations for planned future projects.

(a) A positive figure increases expenses and a negative figure decreases expenses.
(b) The figures presented are the net figure for new policy decisions that increase or decrease expenses.
(c) Current year costs for energy rebates are being met from within existing resources.

3.5 Capital expenditure outlook

General government capital expenditure

Over the budget and forward estimates, capital expenditure in the general government sector (GGS) is expected to be $56.6 billion as the Government delivers record levels of investment in infrastructure. This is $7.0 billion higher than projected in the 2017-18 Budget, largely due to new spending initiatives in the transport sector and the estimated impact of spending reserved funds in Restart NSW (refer to Box 3.9 for more details).

Table 3.7 provides a reconciliation of capital expenditure between the 2017-18 Budget and Half-Yearly Review.

Table 3.7: Capital reconciliation – 2017-18 Budget to Half-Yearly Review

	2017-18	2018-19	2019-20	2020-21
	Revised		Forward Estimates	
	$m	$m	$m	$m
Capital - 2017-18 Budget	**14,515**	**16,490**	**10,707**	**7,938**
Capital changes since Budget				
Policy				
- New capital works [(a)]	610	1,810	2,103	2,300
Parameter and other budget variations	(800)	351	91	494
Total variations since 2017-18 Budget	**(190)**	**2,161**	**2,194**	**2,794**
Capital - 2017-18 Half-Yearly Review	**14,325**	**18,651**	**12,902**	**10,732**

(a) Includes estimated impact of spending reserved funds in Restart NSW (refer to Box 3.9 for more details).

Box 3.7: Continuing record levels of infrastructure investment

The Half-Yearly Review allocates a record $80.1 billion over the four years to 2020-21 across both the GGS and public non-financial corporation (PNFC) sectors[8]. This is $7.4 billion higher than estimated in the 2017-18 Budget.

In addition to the record capital spending by agencies, the State is also making substantial financial contributions to major projects, which are not classified as capital expenditure. This includes financial contributions to WestConnex Stage 3, Sydney Metro Northwest, and the CBD and South East Light Rail.

Previously announced infrastructure investment being delivered includes the following major transport projects and programs:

- Sydney Metro City and Southwest
- Sydney Metro Northwest
- WestConnex
- CBD and South East Light Rail
- New Intercity Fleet
- Regional Growth Roads
- Fixing Country Roads
- Bridges for the Bush.

[8] Includes estimated impact of spending reserved funds in Restart NSW (refer to Box 3.9 for more details).

New Government initiatives for infrastructure projects that are expected to commence in 2017-18 have contributed to the growth in capital expenditure. New capital expenditure supported by the Government since the 2017-18 Budget includes:

- $882.5 million from Restart NSW, including as part of the Rebuilding NSW plan for Stage 1 of Parramatta Light Rail[9] (see Box 3.8)
- around $550 million released for construction of the Princes Highway Albion Park Rail bypass[10]
- over $75 million towards the NSW contribution for a new Murray River Bridge between Moama and Echuca
- $73.7 million for the Sydney Coordinated Adaptive Traffic System (SCATS) Congestion Improvement Program
- $46.8 million for the Northern Road as part of the Western Sydney Infrastructure Plan
- $38.0 million towards Campbelltown Road upgrade Stage 1 delivery.

Since the 2017-18 Budget, the Government has announced further commitments for investment in health and education from Restart NSW including:

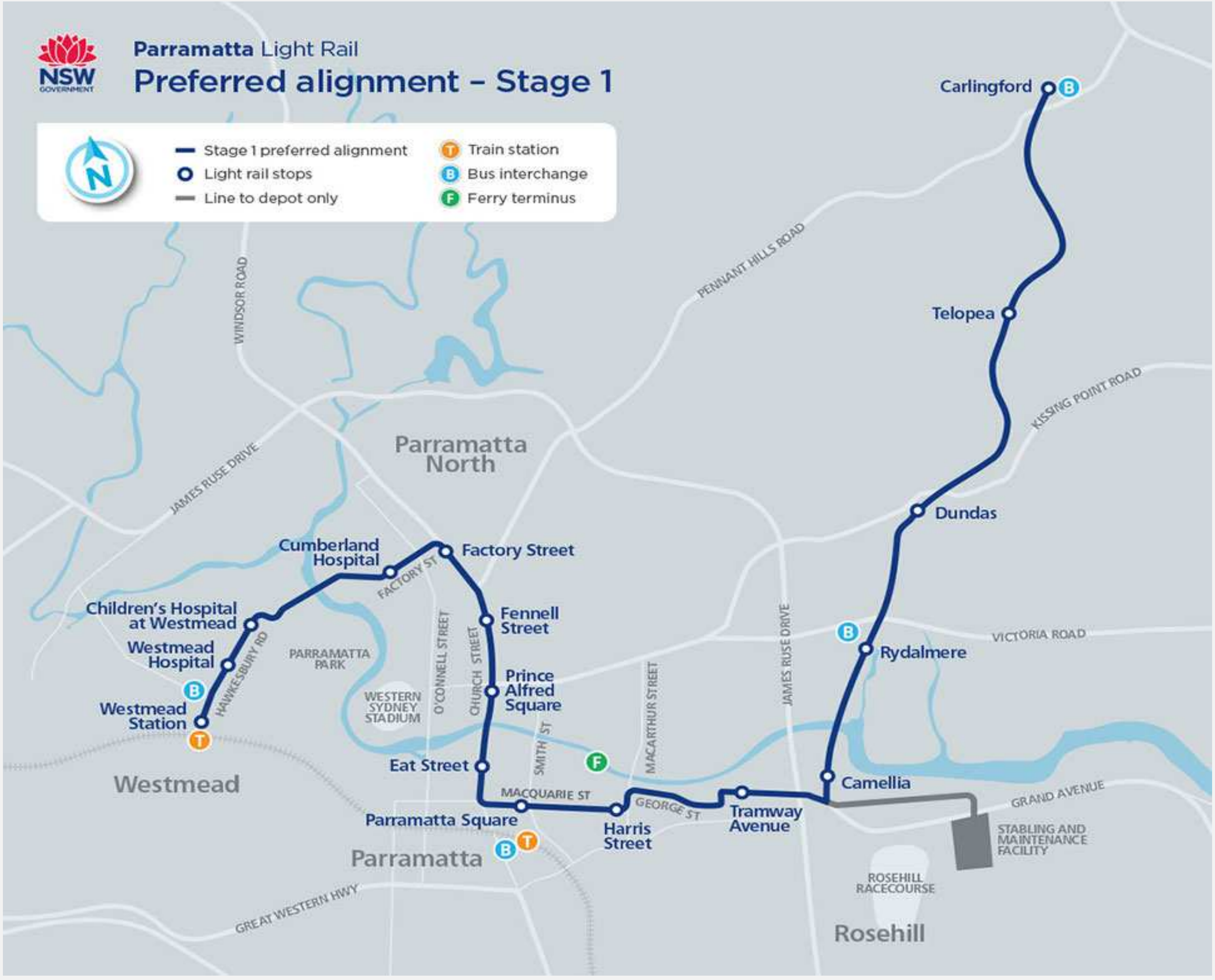
- $255.0 million for the Future Focused Schools program to service growing student populations[11]
- $69.5 million for the Regional Schools Renewal Program to create technology rich learning places in schools[11]
- $13.7 million for the Regional Health Infrastructure Program to fast-track health infrastructure in regional areas[11].

This is in addition to the record infrastructure investment supported by the State in the 2017-18 Budget, which included record state investment in health ($7.7 billion over four years[12]) and education ($4.2 billion over four years).

[9] Total funding amount from sources other than Restart NSW is commercial-in-confidence. The finalisation of project cost estimates for Stage 1 is underway.
[10] Total funding amount is commercial-in-confidence.
[11] Includes Restart NSW funds to repay or replace funding from the Consolidated Fund.
[12] Includes capital expenses falling below the capitalisation threshold.

Box 3.8: Parramatta Light Rail Stage 1

Project: The Parramatta Light Rail Stage 1 is one of the NSW Government's latest major infrastructure projects being delivered to serve a growing Sydney, connecting Westmead to Carlingford via Parramatta CBD and Camellia.



The NSW Government has committed $1.0 billion to the project from Restart NSW, including as part of the Rebuilding NSW plan with additional funding also committed. The finalisation of project cost estimates for Stage 1 is underway.

The project will provide high frequency 'turn-up-and-go' services seven days a week from 5am to 1am. Services will operate approximately every 7.5 minutes in the peak period between 7am and 7pm, and interchange with existing rail, bus and/or ferry facilities at Westmead, Parramatta CBD, and Carlingford.

The project will also deliver active transport corridors and additional urban design features along sections of the alignment and within stop precincts, and create two light rail and pedestrian zones (no general vehicle access) within the Parramatta CBD along Church Street and Macquarie Street.

Construction of the project is expected to commence in mid-2018 (subject to planning approval) with services commencing in 2023.

3.6 Restart NSW Fund (including Rebuilding NSW)

In 2011, the Government established the Restart NSW Fund (Restart NSW) to enable a range of high priority infrastructure projects to be funded and delivered. Restart NSW is also the vehicle for the delivery of the $20 billion Rebuilding NSW plan.

Since the 2017-18 Budget, the Government has committed $2.8 billion from Restart NSW to deliver critical infrastructure projects in both urban and regional New South Wales (see Table 3.9). Rebuilding NSW projects are detailed in Table 3.11.

Restart NSW

Total receipts of $29.9 billion have been deposited into Restart NSW as at the Half-Yearly Review.

The table below summarises aggregate commitments and reservations for current and future projects funded from Restart NSW.

Table 3.8: Restart NSW Fund (expected position at 2017-18 Half-Yearly Review)

	Restart NSW (excluding Rebuilding NSW)	Rebuilding NSW	Total
Total inflows[(a)]			**$29.9 billion**
Commitments	$6.2 billion	$14.1 billion	$20.3 billion
Reservations	$3.4 billion	$5.9 billion	$9.3 billion

(a) Reflects inflows received as at the Half-Yearly Review but not future inflows, such as further Commonwealth Government Asset Recycling Initiative payments or future asset recycling proceeds. Total inflows exclude unrealised gains in the NSW Infrastructure Future Fund. Total inflows include funds that have been deposited into Restart NSW but have not yet been committed or reserved for infrastructure projects.

The Half-Yearly Review incorporates a number of new Restart NSW funding commitments, including commitments to fund Rebuilding NSW projects. These projects have been subject to a rigorous selection process, supported by sound business cases demonstrating that they are financially and economically justifiable. Table 3.9 summarises these commitments.

Table 3.9: Additional Restart NSW commitments from 2017-18 Budget to the Half-Yearly Review

	Commitments $m
Parramatta Light Rail Stage 1	282.5
Housing Acceleration Fund 4	101.7
Housing Acceleration Fund 3	49.4
Western Sydney Infrastructure Plan	46.8
Connecting Country Communities[(a)(b)]	38.7
Regional Health Infrastructure Program[(a)]	13.7
Administration costs for the Regional Growth: Economic Activation Fund	10.0
Cycling Infrastructure Fund	5.2
Resources for Regions	4.8
Additional Support for Tourism Infrastructure Program	3.3
Water Security for Regions[(c)]	(22.6)
Restart NSW commitments (excluding Rebuilding NSW)	**533.4**
Parramatta Light Rail Stage 1[(a)]	600.0
Regional Growth Roads	568.5
Future Focused Schools[(a)]	255.0
Culture and Arts[(a)]	151.6
Regional Road Freight Corridor	135.8
Fixing Country Roads	114.2
Primary and Integrated Care Strategy[(a)]	100.0
Regional Multipurpose Services (MPS) health facilities[(a)]	76.7
Traffic Management Upgrades	73.7
Regional Schools Renewal Program[(a)]	69.5
Bridges for the Bush	44.5
Western Harbour Tunnel and F6	37.0
Safe and Secure Water Program	21.6
Regional Growth: Environment and Tourism Fund	7.2
Corridor Identification and Reservation Fund	7.0
Smart Motorways	1.8
Fixing Country Rail	1.1
Rebuilding NSW commitments	**2,265.2**
Total commitments since the Budget	**2,798.6**

(a) Includes Restart NSW funds to repay or replace advances from the Consolidated Fund (primarily used to accelerate the delivery of Rebuilding NSW projects).
(b) The Connecting Country Communities program is part of the Regional Growth: Economic Activation Fund, funded from within Restart NSW.
(c) The funding commitment for the Broken Hill Emergency Water Supply project was reduced by amounts no longer needed by the funding recipient to complete the project. These funds have been returned to the uncommitted and unreserved balance in Restart NSW.

The Government also reserves funds for projects with a view to a future commitment. This allows for the preparation of a final business case, and Infrastructure NSW endorsement, prior to a final funding decision. Table 3.10 below summarises the new project-level reservations made since the 2017-18 Budget.

Table 3.10: Additional project-level reservations from 2017-18 Budget to the Half-Yearly Review

	Reservations $m
Tamworth Intermodal Rail Line Activation[(a)]	7.4
Northern Rivers Livestock Exchange[(a)]	7.0
Total additional reservations since the Budget	**14.4**

(a) The project-level reservations have been made from within the Growing Local Economies program, which is part of the $1.0 billion reservation for the Regional Growth: Economic Activation Fund.

From this Half-Yearly Review forward, the estimated impact of spending funds reserved in Restart NSW will be included in the budget aggregates. Box 3.9 below sets out the reasons for the change and the estimated budget impact.

Box 3.9: Reflecting Restart NSW reservations in the budget

As at the Half-Yearly Review, $9.3 billion has been reserved in Restart NSW to fund further projects and programs.

Projects and programs covered by reservations are subject to further development by proponents, and review by Infrastructure NSW, before a final government decision on whether to proceed. Reservations are listed in full in the budget papers with new reservations reported in the Half-Yearly Review (see Table 3.10).

From this Half-Yearly Review forward, the budget estimates will include the estimated direct budget impact of spending funds reserved in Restart NSW. This better aligns the budget aggregates with the anticipated future fiscal position of the State. This change reflects the Government's commitment to invest the entire amount reserved for projects and programs in Restart NSW.

The change is timely, given the recent completion of major asset recycling transactions (including the finalisation of the Ausgrid, Endeavour Energy, and Land and Property Information transactions). The completion of these transactions has allowed the Government to fund the whole of the $20 billion Rebuilding NSW plan.

Reflecting Restart NSW reservations in the budget increases expenses by $2.0 billion over the four years to 2020-21, primarily as a result of expenditure on projects that will be delivered by local government and government businesses. This change also increases the general government four year capital program by $3.9 billion. The impact on the net lending result is $5.8 billion over the four years to 2020-21.

Estimates of the timing and type of expenditure for Restart NSW reservations are expected to change as project plans are developed, assurance processes are completed, and as reservations for new projects are made.

Consistent with current practice, individual projects will not be included in agency budgets until a payment has been formally approved by the Government in accordance with the *Restart NSW Fund Act 2011* and following completion of assurance processes and advice from Infrastructure NSW.

The Government continues to support regional communities, with $1.1 billion in additional Restart NSW funds committed to infrastructure projects in regional New South Wales since the 2017-18 Budget. New Restart NSW commitments to regional projects are detailed in Box 3.10.

Box 3.10: Restart NSW – regional investment

In aggregate, 30 per cent of Restart NSW funding over time is targeted at regional and rural areas outside the metropolitan areas of Sydney, Newcastle, and Wollongong. This includes the Government's pledge to invest $6.0 billion of the $20 billion Rebuilding NSW plan in regional New South Wales.

Since the 2017-18 Budget, significant commitments from Restart NSW to regional projects and programs include:

- $864.1 million for regional transport projects, including:
  - around $550 million for construction of the Princes Highway, Albion Park Rail bypass[13]
  - over $75 million towards the New South Wales contribution for a new Murray River Bridge between Moama and Echuca
  - $92.1 million for 67 projects as part of Round Three of the Fixing Country Roads program
- $69.5 million for the Connecting Country Schools project (Regional Schools Renewal Program)[14]
- $38.7 million for the Connecting Country Communities program (Regional Growth: Economic Activation Fund), comprising:
  - $27.2 million for the Mobile Black Spot program
  - $11.5 million for the Regional Digital Connectivity project
- $21.6 million for the Safe and Secure Water Program, including:
  - $10.0 million for the Liverpool Plains District Water Quality project
  - $5.3 million for the Hay Wastewater Treatment project.

Rebuilding NSW plan

The successful completion of the electricity network transactions at the 2017-18 Budget will enable the Government to deliver in full the $20 billion Rebuilding NSW plan through Restart NSW. The Rebuilding NSW plan has allowed critical infrastructure projects and programs to be fast-tracked. This includes bringing forward project start dates, accelerating project timeframes and funding projects that would not otherwise have been funded.

[13] Exact funding commitment is commercial-in-confidence.
[14] Includes Restart NSW funds to repay or replace advances from the Consolidated Fund (primarily used to accelerate the delivery of Rebuilding NSW projects).

Table 3.11: Rebuilding NSW plan

Priority areas	Project/Program	Rebuilding NSW plan contribution $m [a]	Restart NSW commitments $m [b]	Restart NSW reservations $m [b]
Urban public transport	Sydney Metro City and Southwest	7,000.0	7,000.0	...
	More Trains, More Services	1,000.0	1,000.0	...
	Parramatta Light Rail	600.0	600.0	...
	Bus Priority Infrastructure (including B-Line)	300.0	290.4	9.6
Urban roads	Western Harbour Tunnel and F6	1,100.0	72.3	1,027.7
	Pinch Points and Clearways	400.0	396.0	4.0
	Smart Motorways	400.0	385.0	15.0
	Gateway to the South Pinch Points	300.0	295.0	5.0
	Traffic Management Upgrades	200.0	95.1	104.9
Regional transport	Regional Road Freight Corridor	2,000.0	784.2	1,215.8
	Regional Growth Roads	1,000.0	977.3	22.7
	Fixing Country Roads	500.0	168.4	331.6
	Fixing Country Rail	400.0	12.1	387.9
	Bridges for the Bush	200.0	83.1	116.9
Water security	Safe and Secure Water Program[c]	1,000.0	430.0	570.0
Education	Future Focused Schools	700.0	255.0	445.0
	Regional Schools Renewal Program	300.0	69.5	230.5
Health	Hospitals Growth program	600.0	...	600.0
	Regional Multipurpose Services (MPS) health facilities	300.0	300.0	...
	Primary and Integrated Care Strategy	100.0	100.0	...
Culture and sport	Culture and Arts	600.0	341.7	258.3
	Sports Stadia	600.0	370.5	229.5
	Regional Growth: Environment and Tourism Fund	300.0	31.6	268.4
Other opportunities	Corridor Identification and Reservation	100.0	67.5	32.5
	Total	**20,000.0**	**14,124.8**	**5,875.2**

(a) In some cases the amount included is less than the expected total cost of the project and funding from other sources will be required.
(b) Restart NSW commitments and reservations include funds to repay or replace advances from the Consolidated Fund.
(c) The Safe and Secure Water Program includes $408.4 million for the Broken Hill Water Supply project, with an additional $72.7 million in Restart NSW funds committed to the project from outside the Rebuilding NSW plan. In total, $481.1 million has been committed from Restart NSW to the Broken Hill Water Supply project.

Infrastructure projects funded from Restart NSW, including Rebuilding NSW projects, are a core component of the State's $80.1 billion capital program over the four years to 2020-21. Over this period, capital expenditure across both the general government and public non-financial corporation sector is forecast to be $7.4 billion higher than estimated in the 2017-18 Budget. This increase reflects significant new spending on Rebuilding NSW projects and the estimated impact of spending funds reserved in Restart NSW.

3.7 Managing the State's assets and liabilities

The State's balance sheet remains strong, with the Government's successful asset recycling strategy enabling the implementation of its record $80.1 billion infrastructure program, which has increased by $7.4 billion. This increase is driven by both new infrastructure investment (e.g. Parramatta Light Rail Stage 1) and the recognition of future Restart NSW reservation spending.

General government net debt is estimated to be negative $2.9 billion at June 2018, the lowest amongst all states and territories. This represents a reduction of $2.4 billion compared to the estimate at the 2017-18 Budget and is largely a result of the higher than expected budget surpluses in 2016-17 and 2017-18.

Since the 2017-18 Budget, net worth is expected to increase by a further $9.7 billion to $247.6 billion by June 2018, driven by increased non-financial assets and a higher than expected 2016-17 budget result raising financial assets.

Net debt

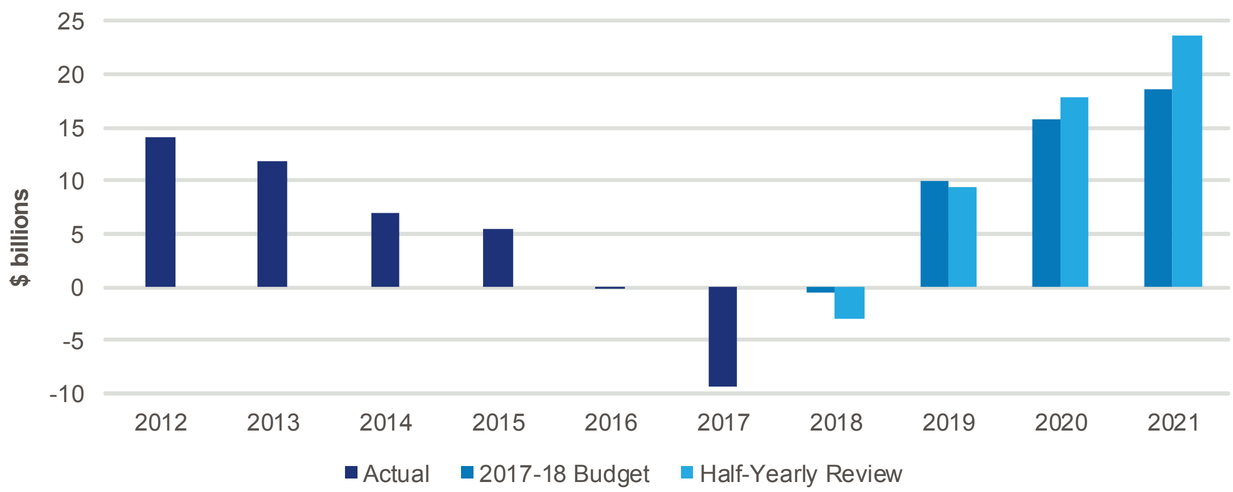
Since the 2017-18 Budget, the projections for general government net debt at June 2018 have improved from negative $0.5 billion to negative $2.9 billion, this is the lowest of all states and territories. This improvement is a result of higher than expected budget surpluses, offset in part by new capital expenditure and the recognition of expenditure to fund current Restart NSW reservations.

Net debt at June 2017 was lower than expected in the 2017-18 Budget at negative $9.3 billion. This is largely the result of an improved operating result in 2016-17 as outlined in the 2016-17 NSW Report on State Finances.

Over the forward estimates, net debt will increase as the Government recycles the proceeds from the State's successful asset recycling strategy, investing in the Restart NSW programs including Rebuilding NSW.

Chart 3.7 presents the movements in net debt between 2012 to 2021, including a comparison of estimated net debt at the time of the 2017-18 Budget and the Half-Yearly Review.

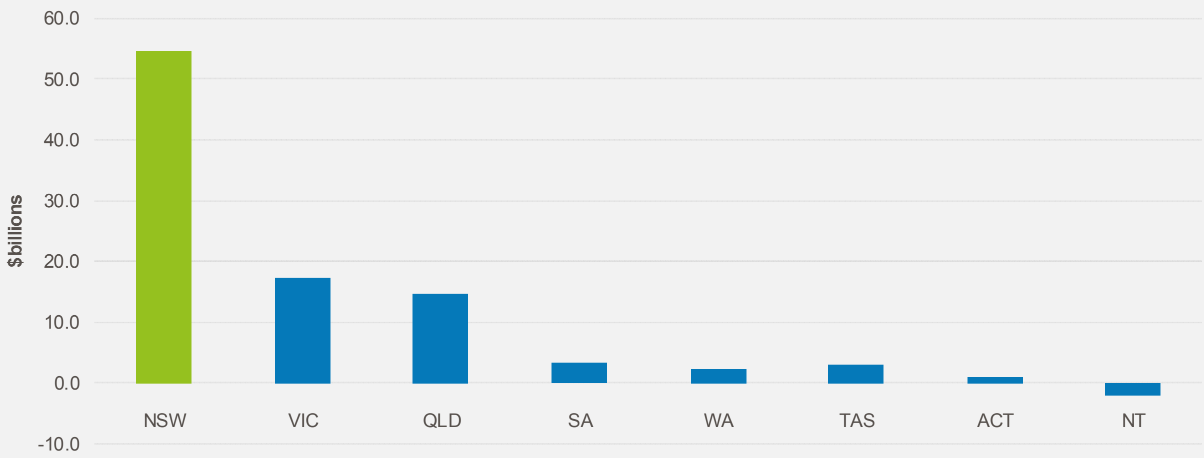
Chart 3.7: Movements in net debt since 2012



Box 3.11: NSW is improving its net worth more than all other states and territories combined

The NSW Government continues to grow the Government's net worth to record levels, projected to be $247.6 billion at June 2018. Not only will New South Wales be the first state to have net worth exceeding a quarter of a trillion dollars (by June 2019), it is also increasing its net worth from June 2017 to June 2021 by more than all the other states and territories combined, see Chart 3.8.

Chart 3.8: Forecast increase in net worth from June 2017 to June 2021

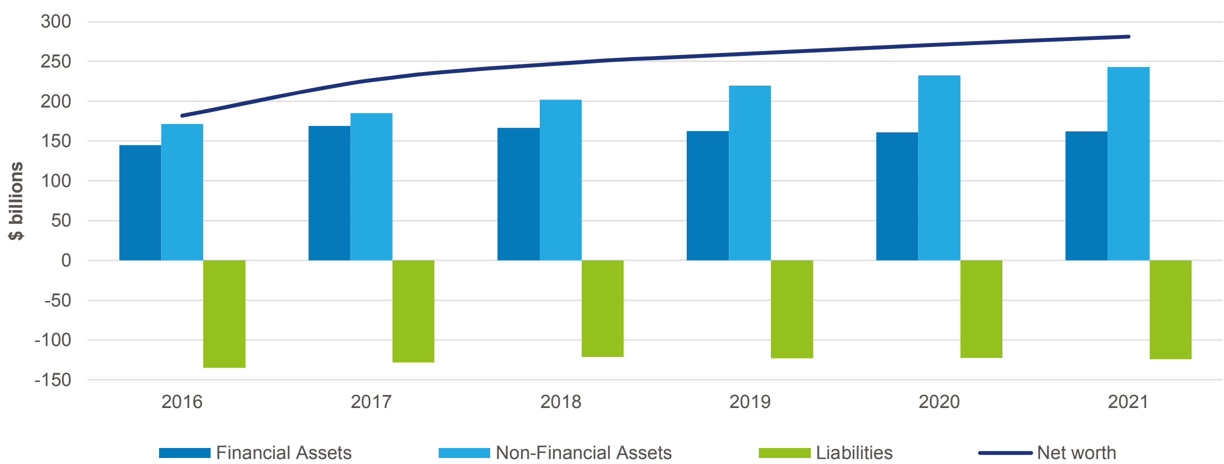


Net worth

Net worth is estimated to reach a record $247.6 billion by June 2018 and is forecast to increase to $281.2 billion by June 2021. The increase in the State's net worth over the forward estimates is consistent with the State's prudent balance sheet management. From June 2017 to June 2021 NSW net worth is growing faster than any other mainland state by 24.2 per cent or $54.7 billion (see Box 3.11).

This growth is being driven by the Government's infrastructure program, with significant increases in non-financial assets over the four years to June 2021. A decrease in superannuation liabilities is also contributing to the growth in net worth over the four years to June 2021. This is being offset to some extent by a modest increase in borrowings over the same period.

Chart 3.9: Changes in NSW assets and liabilities since June 2016



Financial assets

General government financial assets are expected to be $166.6 billion at June 2018, decreasing to $162.1 billion by June 2021 (see Chart 3.9). Financial assets include cash, receivables, financial investments and equity investments. These are principally invested by the State to match against future liabilities, manage liquidity needs and enhance returns within acceptable risk parameters (e.g. NSW Infrastructure Future Fund (NIFF) and the Social and Affordable Housing Fund).

As part of their assessment of the State's overall creditworthiness, credit rating agencies also consider the State's access to and holdings of liquid assets. The State's liquidity position is particularly robust, due to the successful sale or lease of significant state assets.

Non-financial assets

Total general government non-financial assets are projected to be $202.2 billion at June 2018, an increase of $6.0 billion relative to the 2017-18 Budget, with non-financial assets increasing to $242.8 billion by June 2021 (see Chart 3.9). This increase is largely driven by new infrastructure projects, reflecting the Government's record capital program, and the impact of net asset revaluations.

Box 3.12: Investing to deliver a greater return to New South Wales

The Government continues to improve the way it manages its financial assets.

The Government has committed to Phase 2 of the Social and Affordable Housing Fund (SAHF), which aims to deliver 1,200 additional houses. The SAHF is being managed by TCorp to help increase the volume of housing that can ultimately be provided through enhancing investment returns.

The NIFF is also performing successfully. TCorp is managing the NIFF to achieve long-term investment returns that are significantly higher than fixed term deposits or cash. The investment approach generates additional funds to be directed towards infrastructure investment.

Liabilities

Total general government liabilities are projected to be $121.2 billion at June 2018 increasing to $123.8 billion by June 2021 (see Chart 3.9). Since the Budget, the forecast for total liabilities at June 2021 has decreased by $2.6 billion primarily due to a reduction in forecast borrowings of approximately $2.0 billion following better than expected 2016-17 outcomes.

These liabilities include borrowings, superannuation liabilities, other employee liabilities and payables. New South Wales is committed to eliminating the State's unfunded superannuation liability by 2030, as outlined in the *Fiscal Responsibility Act 2012.*

Contingent assets and liabilities

Contingent assets and contingent liabilities are possible future assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the State.

Contingent assets and liabilities can be classified into quantifiable (where its financial effect can be estimated) or non-quantifiable.

The State issues a variety of warranties and guarantees, with the two most notable being:

- the securities, borrowings and derivatives issued by TCorp which move broadly in line with the State's funding requirements
- the defined benefit superannuation guarantee the State makes for certain ex-public sector employees following divestment of state businesses.

3.8 Fiscal risks

The 2017-18 Budget and Half-Yearly Review are prepared, in part, on forecasts and assumptions, some of which are subject to variation.

Revenue risks

The revenue generated from taxes and other sources is dependent on a number of economic variables. Any change in these variables may result in changes to the actual revenue collected.

For example, changes to the amount of GST revenue collected nationally (the pool size) and the State's share of this revenue (its relativity) are a risk to state revenue. NSW GST revenue may change based on revisions to the GST pool as well as the GST relativities. The relative strength in the State's revenue performance in comparison to other states could put downward pressure on the NSW relativity and GST distribution.

National Agreement and National Partnership payments can be volatile due to the Commonwealth Government introducing new programs and infrastructure projects, terminating existing agreements or reprofiling the timing of payments to the State.

Expense risks

Some expense risks are within the Government's control and are actively managed. For example, the Government has been managing employee-related expenses through the NSW public sector wages policy.

Other risks can be beyond the Government's control, for example Commonwealth payments, performance of financial markets, and interest rates. The Commonwealth provides updated forecasts of its payments to the states as part of its Mid-Year Economic and Fiscal Outlook and Budget. New South Wales will update its fiscal position and outlook following the release of Commonwealth data.

The performance of global financial markets and changes in interest rates can impact investment returns and borrowing costs. Investment returns below those estimated will have a negative impact on revenues. Higher interest rates will result in higher borrowing costs for new borrowings while lower interest rates reduce new borrowing costs.

Some expense risks have offsetting revenue and can impact expenses and expense growth without affecting the budget result, for example Commonwealth grants.

Liabilities for superannuation and long service leave are estimated with reference to assumed rates of investment returns, salary growth, inflation, discount rates and other factors. Changes in these parameters can affect superannuation and long service leave liabilities.

Capital risks

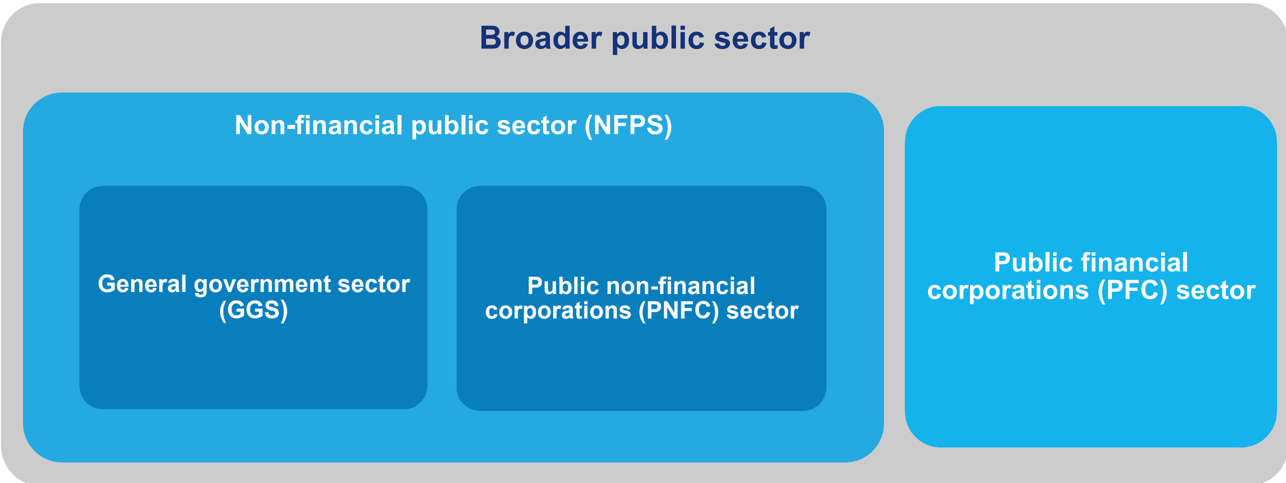
Capital risks can also arise from changes to existing plans, and procurement risks. As the State plans its future capital requirements across the medium and long-term, significant additional capital requirements may be identified.

Risks can also emerge when procuring infrastructure. If the Government is procuring from overseas, foreign exchange risks may emerge that would need to be carefully managed and hedged if necessary.

3.9 Commercial performance in the broader public sector

The broader public sector is made up of entities within the public financial corporations (PFC) sector and non-financial public sector (NFPS).

The NFPS is comprised of the general government sector (GGS) and the public non-financial corporations (PNFC) sector.



Review of the Commercial Policy Framework

The Commercial Policy Framework (CPF) is a suite of policies that set expectations for government businesses in the PNFC and PFC sectors. The CPF aims to replicate in government businesses the disciplines and incentives that lead private sector businesses toward efficient commercial practices. The Government continuously reviews and updates the CPF to ensure it reflects commercial best practice and to incorporate changes in government priorities and the regulatory environment.

In 2017-18, changes to the CPF will include a stronger assurance and monitoring policy for major capital investments, revised annual reporting and performance monitoring requirements, updated board governance guidelines, and revised guidelines for CEO appointments that reflect current industry best practice.

Reform of government businesses since the 2017-18 Budget

In August 2017, the Government announced its intent to sell 51 per cent of Sydney Motorway Corporation (SMC), the authority delivering WestConnex, to help fund the M4-M5 Link. On 22 September 2017, the Government launched the sale, calling for parties to register interest. The Government is targeting a transaction closing date of mid-2018.

WaterNSW has appointed John Holland MPC Group Joint Venture to design and construct the Broken Hill pipeline. Detailed planning and design works have commenced, with construction to start in January 2018. The pipeline will ensure a secure water supply for Broken Hill. It will also benefit both the Wentworth and Broken Hill communities by creating more than 150 local construction jobs and further jobs with steel manufacturers and other suppliers.

Essential Energy continues to focus on reducing network charges for customers in 2017-18. Essential Energy also completed the first phase of its mobile device rollout to employees, which involved implementing the ‘eWorks’ works management program in depots to facilitate real time network maintenance from the field. This program is expected to improve productivity, increase efficiency and create a more empowered workforce, while supporting a drive towards reduced network charges for customers.

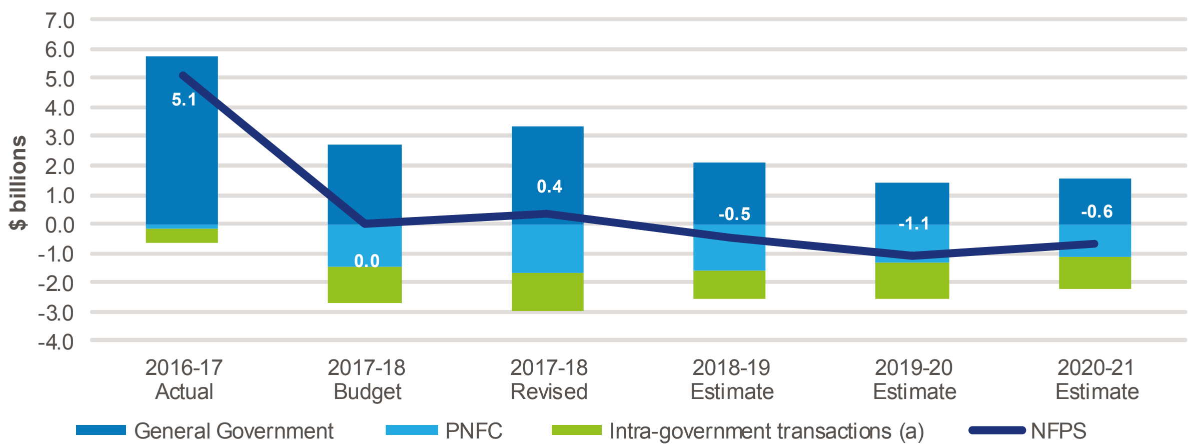
Landcom has completed its organisational separation. In November 2017, Landcom released its new strategy, which reflects the Government’s intent for Landcom to take a lead role in improving supply, diversity and affordability of new housing in Sydney and New South Wales.

Non-financial public sector operating performance

The operating performance of the NFPS has improved relative to the 2017-18 Budget. The net operating balance has been revised up by $0.3 billion in 2017-18, mainly due to lower general government expenses. Over the forward estimates, the net operating balance has been revised down by $0.4 billion, mainly due to higher PNFC expenditure.

Further details on the performance of the GGS are set out in Section 3.2 and Section 3.3. Chart 3.10 below shows the key components of the NFPS net operating balance.

Chart 3.10: Components of the non-financial public sector net operating balance



(a) Intra-government transactions refer to payments between state entities, such as dividends paid from PNFCs to GGS.

Dividends and tax equivalent payments

Dividends received by the GGS from PNFCs and PFCs are based on the operating performance of those businesses. To ensure competitive neutrality with private sector businesses, PNFCs and PFCs also make tax equivalent payments and pay debt neutrality charges (government guarantee fees).

In 2017-18, the dividend and tax equivalent payments are forecast at $1.7 billion, which is $82.7 million higher than forecast at the 2017-18 Budget. The change since the Budget primarily reflects increased payments from the water sector due to higher than expected revenue as a result of warm weather increasing demand for water as well as increased developer contributed assets, combined with lower than expected operating expenses.

Government guarantee fees are forecast to be $303.5 million in 2017-18, which is $15.3 million lower than forecast at the Budget.

Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $6.1 billion, $137.1 million higher than forecast at the 2017-18 Budget. Table 3.12 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors over the period 2016-17 to 2020-21.

Table 3.12: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations

	2016-17 Actual	2017-18 Budget	2017-18 Revised	2018-19	2019-20 Forward Estimates	2020-21
	$m	$m	$m	$m	$m	$m
Electricity	260	47	25	52	66	131
Water	569	966	1,069	938	1,096	824
Property and Resources	137	328	324	274	299	271
Ports	13	202	202	30	44	50
Public Financial Corporations	123	77	82	84	89	90
Other	...	...	...	...	...	102
Total Dividends and Tax Equivalent Payments	**1,102**	**1,620**	**1,703**	**1,378**	**1,595**	**1,468**

Capital expenditure

In 2017-18, capital expenditure within the PNFC sector is forecast to be $7.3 billion, $0.4 billion lower than the 2017-18 Budget, primarily due to lower capital spending by Rail Corporation New South Wales.

Capital expenditure within the PNFC sector over the budget and forward estimates is forecast to be $23.5 billion, $0.5 billion higher than the 2017-18 Budget, mainly due to higher capital spending by Sydney Motorway Corporation.

Public Financial Corporations

The PFC sector includes New South Wales Treasury Corporation (TCorp) and Insurance and Care NSW (icare).

TCorp's total funds under management have increased from $68.3 billion to $89.1 billion over the year to 31 October 2017, largely because of the establishment of the NSW Infrastructure Future Fund into which the net proceeds from the State's asset recycling program are being invested.